

**The Internal Revenue Service Continues
to Pay Tax Refunds on *E-Filed* Tax Returns
Prior to Ensuring a Signature Document
Is Processed**

September 2002

Reference Number: 2002-40-202

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 27, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips
FROM: Michael R. Phillips
Acting Deputy Inspector General for Audit

SUBJECT: Final Report - The Internal Revenue Service Continues to
Pay Tax Refunds on *E-Filed* Tax Returns Prior to Ensuring a
Signature Document Is Processed (Audit # 200240040)

This report presents the results of our review to determine what actions the Internal Revenue Service (IRS) takes to ensure taxpayers are not receiving tax refunds on unsigned electronically filed (*e-filed*) tax returns.

In February 2001, the General Accounting Office (GAO)¹ reported that for the 2000 Filing Season an estimated \$2.1 billion in tax refunds had been issued to taxpayers who filed an electronic tax return without the required signature document – U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) – being received and processed by the IRS as of August 2000. The GAO recommended that the IRS implement an alternative signature process to the Forms 8453 for taxpayers to authenticate (sign) *e-filed* tax returns or to strengthen procedures for receiving and processing Forms 8453. In an attempt to create an entirely paperless electronic tax return filing process, the IRS tested the use of electronic signatures (no Form 8453 required to be sent to the IRS) to sign electronic tax returns in the 1999 and 2000 Filing Seasons.

Internal Revenue Code section 6061² requires all tax returns, both paper and *e-filed*, to have the taxpayer's signature. A taxpayer's signature authenticates a tax return and provides certification from the taxpayer that the tax return is true, correct, and complete to the best of the taxpayer's knowledge and belief.

¹ *Information Security: IRS Electronic Filing Systems* (Reference Number GAO-01-306, dated February 2001).

² 26 U.S.C. § 6061 (1954).

In summary, our review identified that the IRS continues to pay tax refunds on unsigned *e-filed* tax returns prior to ensuring a signature document (Form 8453) is received and processed. Specifically, taxpayers who file electronically and do not sign their returns via an electronic signature are issued their tax refunds regardless of whether the required Form 8453 is received and processed by the IRS.

To ensure taxpayer compliance with signature requirements, the IRS should ensure a Form 8453 is received and processed for each electronic tax return prior to issuing a tax refund. If the IRS were to make a business decision to begin to ensure a Form 8453 is received and processed prior to issuing a tax refund, delays in taxpayers obtaining refunds will result when compared to tax refund issuance time periods under its current process. However, a change in IRS policy with regard to the processing of *e-filed* tax returns requiring a Form 8453 is unlikely. Therefore, to alleviate any tax refund delays resulting from the IRS' receiving and processing of Forms 8453, we recommend that the IRS continue to educate taxpayers on the use of electronic signatures and take immediate steps to require electronic signatures be used for all electronic tax returns, thereby making the *e-file* process truly paperless. For Tax Year 2001, there were 46.2 million *e-filed* tax returns, of which approximately 53 percent (24.4 million) were signed electronically.

Management's Response: The IRS agreed with Recommendation 1 and stated that it is continuing to educate individual taxpayers and tax practitioners on the use of electronic signatures through various means detailed in its response. However, the IRS does not agree with Recommendation 2 and as a result also does not agree with the funds put to better use impact of requiring electronic signatures for all electronic tax returns. The IRS did point out that it has been working with tax professionals to eliminate the paper signature document for taxpayers who *e-file*. It has initiated and then expanded programs over the past few years (since 1999) to allow taxpayers the option to sign their returns electronically.

Despite the electronic options offered, the IRS believes it may not be able to eliminate signature documents from income tax returns completely because some forms contain secondary signatures and must be attached to the income tax returns. Taxpayers filing these forms must file a Form 8453 and attach the forms with the secondary signatures. In conclusion, the IRS does not believe it is feasible to mandate electronic signatures for all *e-filed* returns at this time. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: Our recommendation was made to address the fact that the IRS continues to pay tax refunds on unsigned *e-filed* tax returns prior to ensuring a signature document (Form 8453) is received and processed. While we agree that the IRS has made significant strides in increasing the number of *e-filed* tax returns signed via an electronic signature, we understand that the elimination of paper signature documents (Forms 8453) is not feasible without the IRS' continued intervention. In addition we also recognize that a change in IRS policy with regard to ensuring a Form 8453 is received and processed prior to issuing a tax refund is unlikely.

We remain concerned that the IRS' payment of tax refunds on *e-filed* tax returns prior to verifying that a signature document is received from the taxpayer does not ensure taxpayer compliance with legal signature requirements and the IRS' own policy regarding the issuance of refunds, which stresses that tax returns filed with a tax refund claim are to be signed by the taxpayer. Therefore, we continue to believe that the IRS should take immediate steps to require electronic signatures be used for all electronic tax returns, thereby gaining efficiencies for taxpayers and IRS resources. However, we do not intend to elevate our disagreement concerning this matter to the Department of the Treasury for resolution.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**The Internal Revenue Service Continues to Pay Tax Refunds on
E-Filed Tax Returns Prior to Ensuring a Signature Document Is Processed**

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The Internal Revenue Service Continues to Pay Tax Refunds on E-Filed Tax Returns Prior to Ensuring a Signature Document Is Processed

Background

A taxpayer's signature authenticates a tax return and provides certification from the taxpayer that the tax return is true, correct, and complete to the best of the taxpayer's knowledge and belief.

The Internal Revenue Service (IRS) allows electronically filed (*e-filed*) tax returns to be signed with an electronic signature or with the traditional (paper) submission of a U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) to the IRS.

The Form 8453 contains the taxpayer's original signature for an *e-filed* tax return. IRS guidelines state that, for an *e-filed* tax return filed by an Electronic Return Originator (ERO),¹ the ERO must mail the Form 8453 to the IRS within 3 business days after the IRS acknowledges acceptance² of the *e-filed* tax return. For those taxpayers preparing their electronic tax returns on their home computers, IRS guidelines require a U.S. Individual Income Tax Declaration for an IRS *e-file* On-Line Return (Form 8453-OL) to be submitted to the IRS within the next working day after the electronic tax return has been acknowledged as accepted.

IRS procedures require the IRS to enter information from the Form 8453 into its computers. Once the information is entered, the IRS performs a computerized match of the individuals who submitted a Form 8453 to the file containing those individuals who *e-filed* and were required to send a Form 8453 signature document to the IRS. If the IRS does not find a match, correspondence is sent to either the ERO or the taxpayer requesting the missing Form 8453 be sent to the IRS.

In February 2001, the General Accounting Office (GAO)³ reported that for the 2000 Filing Season an estimated \$2.1 billion in tax refunds had been issued to taxpayers who

¹ EROs are authorized providers who send taxpayers' tax returns to the IRS in an electronic format.

² An accepted electronic tax return is one that has passed computerized checks designed to keep out electronically filed tax returns having certain questionable characteristics.

³ *Information Security: IRS Electronic Filing Systems* (Reference Number GAO-01-306, dated February 2001).

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filed an electronic tax return without the required signature document (Form 8453) being received and processed by the IRS as of August 2000. The GAO recommended that the IRS implement an alternative signature process to the Forms 8453 for taxpayers to authenticate (sign) *e-filed* tax returns or to strengthen procedures regarding the receipt and processing of Forms 8453.

In an attempt to create an entirely paperless electronic tax return filing process (no Form 8453 required to be sent to the IRS), the IRS tested the use of electronic signatures to sign *e-filed* tax returns. The 1999 and 2000 Filing Season tests resulted in a reduction in the number of Forms 8453 required to be sent to and processed by the IRS. For Tax Year (TY) 2001, there were 46.2 million *e-filed* tax returns, of which approximately 24.4 million (53 percent) were signed electronically.

Audit work was performed from January 2002 to May 2002 at the National Headquarters for Electronic Tax Administration in Washington, D.C., and the five IRS Tax Processing Sites⁴ that accept and process electronic tax returns. The review was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The Internal Revenue Service Continues to Pay Tax Refunds on E-filed Tax Returns Prior to Ensuring a Signature Document Is Received and Processed

The IRS continues to pay tax refunds on unsigned *e-filed* tax returns prior to ensuring a signature document is received and processed. Specifically, taxpayers who file electronically and do not sign their tax returns via an electronic signature are issued their tax refunds regardless of whether a Form 8453 is received and processed by the IRS. For TYs 2000 and 2001, the IRS processed an estimated 13.5 million *e-filed* tax returns and paid tax refunds totaling an estimated \$25.8 billion prior to ensuring a signature document was received and processed⁵ (see table 1).

⁴ These sites are located in Andover, Austin, Cincinnati, Memphis, and Ogden.

⁵ The Form 8453 had not been input into the IRS computer system and had not been associated with the e-filed tax return.

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**Table 1 - Tax Refunds Paid on E-Filed Tax Returns
Requiring Submission of a Form 8453**

Tax Year	Total E-Filed Tax Returns with Refunds Paid	Average Tax Refund Paid	Total Tax Refunds Paid
2001	5,700,783	\$1,910	\$10,888,495,530
2000	7,818,985	\$1,910	\$14,934,261,350
Total	13,519,768		\$25,822,756,880

Source: IRS e-filed reports, 6240 Program Analysis reports, and GAO report Information Security: IRS Electronic Filing Systems (Reference Number GAO-01-306, dated February 2001).

The IRS' payment of tax refunds on *e-filed* tax returns prior to verifying that a signature document is received from the taxpayer does not ensure taxpayer compliance with legal signature requirements and the IRS' own policy regarding the issuance of refunds. Specifically, Internal Revenue Code section 6061⁶ requires all tax returns, both paper-filed and *e-filed*, to have the taxpayer's signature. In addition, IRS policy⁷ stresses that tax returns filed with a tax refund claim are to be signed by the taxpayer.

In addition, the IRS' Criminal Investigation (CI) Division is concerned that the absence of a taxpayer's signature may affect its ability to prosecute taxpayers for perjury for providing false information on their tax returns to inflate tax refunds. However, the CI Division has the ability to prosecute a case involving absence of taxpayer signatures as a false claim against the government. The CI Division has noted that prosecuting a false claim against the government is much more difficult; however, to management's recollection no case has been lost because of a missing signature.

⁶ 26 U.S.C. § 6061 (1954).

⁷ Policy Statement P-2-11. Policy statements are major decisions made by the IRS Commissioner within the framework of basic tax administrative policies of the Department of the Treasury and the Congress. These policies govern and guide IRS personnel in the administration of internal revenue laws.

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Contributing factors

Several factors contribute to the IRS not ensuring that a signature document is received and processed prior to tax refunds being paid on *e-filed* tax returns. These factors result primarily from IRS policy decisions as well as the promotion of electronic filing as a quicker means of obtaining a tax refund. Specifically:

- The processing of *e-filed* tax returns is separate from the processing of the Forms 8453. The processing of *e-filed* tax returns is primarily via computer, whereas the processing of the Form 8453 requires IRS employees to review and input information from the paper Form 8453 into IRS computers. Organizational priorities result in delays in entering information from the Forms 8453 into IRS computers (see below). Once the information (from Form 8453) is transcribed into IRS computers, the IRS performs a match on a weekly basis to ensure it has received a Form 8453 for each *e-filed* tax return without an electronic signature.
- Time periods for tax refund issuance on electronic tax returns do not always allow for the timely processing of Forms 8453 before a tax refund is issued. Tax refunds on *e-filed* tax returns are generally issued within 10 days of the IRS' receipt and acknowledgement of an electronic tax return. Although IRS guidance states that Forms 8453 should be processed by the IRS within 8 days of receipt, Forms 8453 are often put aside during the filing season when the volume of paper refund tax returns is high. If the processing of these paper tax returns is not timely (within 45 days of receipt or due date, whichever is later), the IRS is subject to paying interest on the tax refund payments, which (depending on the number of tax returns unprocessed) could be substantial.

Effect of not verifying a signature document is received

The manner in which the IRS handles the processing of electronic compared to paper-filed tax returns with tax refund claims results in disparate treatment for taxpayers. Specifically, the IRS will not process a paper-filed tax

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return with a tax refund claim without a signature (the taxpayer will not receive his or her refund until the tax return is signed). The paper tax return with the missing signature is sent back to the taxpayer as unprocessable. In contrast, the IRS will process and pay tax refunds for *e-filed* tax returns without ensuring signature documents were received and processed.

If the IRS were to make a business decision to begin to ensure a Form 8453 is received and processed prior to issuing a tax refund, delays in taxpayers obtaining refunds will result when compared to tax refund issuance time periods under its current process. However, a change in IRS policy with regard to the processing of *e-filed* tax returns requiring a Form 8453 is unlikely. Therefore, the use of an electronic signature will alleviate these tax refund delays, as the IRS would not have to ensure a Form 8453 is received and processed prior to a refund being issued.

The continued expansion and use of electronic signatures will allow the IRS to reallocate into other areas the average \$8 million it budgets each year for the processing of Forms 8453. In addition, if the IRS does not continue to move toward the use of electronic signatures, the cost to process paper Forms 8453 will significantly increase as the IRS moves toward its goal of having 80 percent of all tax returns filed electronically by 2007 (see table 2).

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**Table 2 - Estimated Costs to Process Forms 8453
for Tax Years 2002–2006**

Tax Year	<i>E-Filed</i> Tax Returns Requiring Form 8453	Estimated Processing Costs¹
2002	19,008,660	\$6,914,020
2003	20,649,970	\$7,511,014
2004	22,138,600	\$8,052,473
2005	23,512,720	\$8,552,282
2006	24,657,820	\$8,968,789
Total	109,967,770	\$39,998,578
Average	21,993,554	\$7,999,716

Source: The IRS Calendar Year Projections for E-Filed Individual Returns to be filed 2002-2008 for the U.S. and the IRS' Form 8453 cost per thousand costing model. See Appendix IV for computation details.

Recommendations

To ensure taxpayer compliance with signature requirements, the Director, Electronic Tax Administration should:

1. Continue to educate taxpayers on the use of electronic signatures.

Management's Response: The IRS stated that it is continuing to educate individual taxpayers and tax practitioners on the use of electronic signatures through various means detailed in its response.

2. Take immediate steps to require electronic signatures be used for all electronic tax returns, thereby making the *e-file* process truly paperless.

Management's Response: The IRS pointed out that it has been working with tax professionals to eliminate the paper signature document for taxpayers who *e-file*. It has initiated and then expanded programs over the past few years (since

¹ Projected costs are underestimated since these projections are limited to processing/labor costs without including costs for notices and storage costs through the required 6-year retention period. Notices are issued to taxpayers for missing or incomplete information.

The Internal Revenue Service Continues to Pay Tax Refunds on *E-Filed* Tax Returns Prior to Ensuring a Signature Document Is Processed

1999) to allow taxpayers the option to sign their returns electronically. With this expansion and the growth in tax preparation software that allows individual filers to electronically sign their returns, the IRS believes the number of taxpayers signing their returns electronically will increase.

Despite the electronic options offered, the IRS believes it may not be able to eliminate signature documents from income tax returns completely because some forms contain secondary signatures and must be attached to the income tax returns. Taxpayers filing these forms must file a Form 8453 and attach the forms with the secondary signatures. In conclusion, the IRS does not believe it is feasible to mandate electronic signatures for all *e-filed* returns at this time.

Office of Audit Comment: Our recommendation was made to address the fact that the IRS continues to pay tax refunds on unsigned *e-filed* tax returns prior to ensuring a signature document (Form 8453) is received and processed. While we agree that the IRS has made significant strides in increasing the number of *e-filed* tax returns signed via an electronic signature, we understand that the elimination of paper signature documents (Forms 8453) is not feasible without the IRS' continued intervention. In addition, we recognize that a change in IRS policy with regard to ensuring a Form 8453 is received and processed prior to issuing a tax refund is unlikely.

We remain concerned that the IRS' payment of tax refunds on *e-filed* tax returns prior to verifying that a signature document is received from the taxpayer does not ensure taxpayer compliance with legal signature requirements and the IRS' own policy regarding the issuance of refunds, which stresses that tax returns filed with a tax refund claim are to be signed by the taxpayer. Therefore, we continue to believe that the IRS should take immediate steps to require electronic signatures be used for all electronic tax returns, thereby gaining efficiencies for taxpayers and IRS resources.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine what actions the Internal Revenue Service (IRS) takes to ensure taxpayers are not receiving tax refunds on unsigned electronically filed (*e-filed*) tax returns. To accomplish this objective, we conducted the following tests:

- I. Obtained and reviewed IRS guidance for the taxpayer signature requirements on paper and *e-filed* tax returns.
- II. Identified the process followed for securing and processing electronic signature documents received from taxpayers filing on-line with a U.S. Individual Income Tax Declaration for an IRS *e-file* On-Line Return (Form 8453-OL) and U.S. Individual Income Tax Declaration for an IRS *e-file* Return (Form 8453) received from Electronic Return Originators (ERO).
 - A. Performed a walk-through at the Andover Tax Processing site to determine how Forms 8453 were processed.
 - B. Held discussions with representatives from Submission Processing and Electronic Tax Administration (ETA).
- III. Determined if the IRS has controls in place to ensure that all *e-filed* tax returns claiming a refund have the required taxpayer's signature prior to refund issuance.
 - A. Analyzed ETA statistics/reports for the period January 1, 2002 to May 23, 2002, to determine if taxpayer signatures are obtained prior to refund issuance.
 - B. Because testing identified that refunds are issued on unsigned electronic tax returns, determined why refunds have been issued and calculated the number of *e-filed* tax returns with tax refunds, as well as the amount of refunds issued.
- IV. Determined actions taken by the IRS to obtain missing Forms 8453.
 - A. Determined the type and volume of notices issued to EROs and taxpayers.
 - B. Determined how effective these notices are in obtaining missing Forms 8453.
 - C. Identified the impact of not sending in Forms 8453 on both on-line filers and EROs.
- V. Determined the costs associated with processing Forms 8453 and the costs to obtain missing and incomplete Forms 8453.
 - A. Determined the processing (labor and indirect labor) costs and storage costs to process the Forms 8453.

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- B. Determined the costs for issuing notices for missing or incomplete Forms 8453 to the taxpayer and ERO.
- C. Estimated the increased cost to process Forms 8453 as the IRS moves toward its goal of having 80 percent of all tax returns filed electronically by 2007.
- VI. Analyzed the impact of electronic signatures on reducing the number of Forms 8453 required to be sent to the IRS.
 - A. Determined the volume of *e-filed* tax returns signed with the Self-Select Personal Identification Number (PIN) and the Practitioner PIN for Tax Years 2000 and 2001.
 - B. Projected for future years how many electronic signature alternatives should be used as the IRS moves toward its goal of having 80 percent of all tax returns filed electronically by 2007.
- VII. Determined if non-receipt of a signature document has any impact on the IRS' tax return fraud detection process.
 - A. Interviewed Criminal Investigation (CI) Division personnel to determine if non-receipt of a signature document is any factor assessed as part of their Questionable Return Program criteria.
 - B. Determined if the CI Division was not able to prosecute a case because of an unsigned electronic tax return.

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Appendix II

Major Contributors to This Report

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Kerry Kilpatrick, Director

Russell Martin, Audit Manager

Robert Howes, Senior Auditor

Grace Terranova, Acting Senior Auditor

Mary Keyes, Auditor

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Appendix III

Report Distribution List

Commissioner N:C

Director, Electronic Tax Administration W:E

Director, Refund Crimes CI:RC

Director, Strategy and Finance W:S

Director, Submissions Processing W:CAS:SP

Chief Counsel CC

National Taxpayer Advocate TA

Director, Legislative Affairs CL:LA

Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O

Office of Management Controls N:CFO:F:M

Audit Liaison:

Director, Electronic Tax Administration W:ETA

Program/Process Assistant Coordinator, Wage and Investment Division W:HR

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Appendix IV

Outcome Measures

This appendix presents detailed information on the potential measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of the Outcome Measure:

- Funds Put to Better Use – Potential; an estimated \$40 million over 5 years (see page 2).

Methodology Used to Measure the Reported Benefit:

We determined the potential number of U.S. Individual Income Tax Declarations for an IRS *e-file* Return (Form 8453) the Internal Revenue Service (IRS) would need to process for Tax Years (TY) 2002-2006 by identifying the potential *e-filed* volume for those years using Electronic Tax Administration (ETA) Calendar Year Projections. We then subtracted from the potential volume of *e-filed* tax returns the projected volume of the *e-filed* tax returns that would be signed electronically or filed electronically via the IRS Telefile program (.6183 percent) by using ETA figures for these volumes.¹ The ETA did not have a projection report showing the anticipated increase in alternative signatures for TYs 2002-2006. Therefore, we applied the same projected rate of *e-filed* tax returns signed electronically to each year based on our review of TY 2001 (see table below).

Tax Year	<i>E-Filed Tax Return Volume</i>	<i>E-Filed Tax Returns Signed Via Electronic Signature/Telefile</i>	<i>E-Filed Tax Returns Requiring Form 8453</i>
2002	49,800,000	30,791,340	19,008,660
2003	54,100,000	33,450,030	20,649,970
2004	58,000,000	35,861,400	22,138,600
2005	61,600,000	38,087,280	23,512,720
2006	64,600,000	39,942,180	24,657,820

Source: See above detailed description of sources used to create table.

We obtained from Submissions Processing the Fiscal Year (FY) 2000 direct and indirect labor cost per thousand to process the Forms 8453, which was \$363.73 per thousand. We estimated the annual volume of Forms 8453 (TYs 2002-2006) that the IRS will need to process. Each

¹ The IRS provides taxpayers who file via its Telefile program with a Personal Identification Number to sign their tax returns.

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annual volume was divided by 1,000. The resulting figures were multiplied by the per thousand process rate identified above.² The calculations below detail the methodology we followed for estimating annual average and total Forms 8453 processing costs for TYs 2002-2006:

- 1) The projected direct and indirect labor costs for
TYs 2002-2006 (see table 2). **Total combined direct &
indirect labor cost:** = \$39,998,578

- 2) From the information in row #1 above, computed the average
combined direct & indirect labor cost (39,998,578/5) (see
table 2). **Average combined direct & indirect labor cost:** = \$7,999,716

² Projected direct and indirect labor costs are conservative based on the FY 2000 cost per thousand costing model. Projected costs are underestimated since these projections are limited to processing/labor costs without including cost for notices and storage costs through the required 6-year retention period. Notices are issued to taxpayers for missing or incomplete information.

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Appendix V

Management's Response to the Draft Report



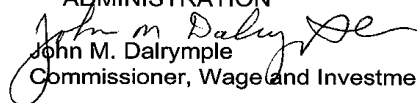
DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



September 25, 2002

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:


John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – The Internal Revenue Service Continues to
Pay Tax Refunds on *E-Filed* Tax Returns Prior to Ensuring a
Signature Document is Processed (Audit No. 200240040)

Your report reflects that for 2001 there were 46.2 million e-filed tax returns, of which 24.4 were signed electronically. Since then, IRS has continued to make significant strides in expanding the use of e-file, one of our key strategic objectives. As of August 31, 2002, e-file return receipts total 46.7 million, an increase of 16 percent from this time last year. Also, while your report noted that electronic signatures made up more than half of all e-filed returns in 2001, it failed to acknowledge the dramatic increase in the use of this option, which grew by 173 percent since its nationwide introduction last year. We expect that widespread public experience with electronic signatures in commercial transactions and IRS marketing efforts will continue this dramatic growth.

We do not agree with the recommendation that IRS require electronic signatures for all e-filed tax returns. Just as we believe continued reliance on voluntary use of e-file by a public increasingly familiar with electronic commerce is the best strategic approach to achieving IRS's long-term e-file goals, we believe use of the electronic signature option should also remain voluntary. As a result, we do not agree with the outcome measures reflected in your report.

If you have any questions, please call me or Ronald S. Rhodes, Director, Customer Account Services, at (404) 338-8910.

Attachment

The Internal Revenue Service Continues to Pay Tax Refunds on E-Filed Tax Returns Prior to Ensuring a Signature Document Is Processed

Attachment

RECOMMENDATION 1

To ensure tax compliance with the signature requirements, the Director, Electronic Tax Administration should continue to educate taxpayers on the use of electronic signatures.

ASSESSMENT OF CAUSE

Taxpayers who file electronically but do not electronically sign their returns are issued tax refunds whether or not the IRS receives and processes a Form 8453.

CORRECTIVE ACTION

We are continuing to educate individual taxpayers and tax practitioners on the use of electronic signatures. Through the contractor-produced *e-file* advertising campaign, we are developing speeches, internal and external news articles and outreach to professional tax groups. Complementing the national campaign, Wage and Investment (W&I) Communication and Liaison Marketing and the Individual Electronic Filing Branch continues to educate taxpayers on electronic signatures in applicable publications, post cards, 1040 series instruction booklets and via articles in relevant publications. We integrate these efforts within the Filing Season Readiness planning process. A marketing team consisting of W&I Individual Electronic Filing; W&I Stakeholder, Partnership, Education and Communication (SPEC); W&I Communication & Liaison; and Small Business/Self-Employed (SB/SE) Taxpayer Education and Communication (TEC) is supporting the national strategy.

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIALS

Commissioner, Wage and Investment Division

RECOMMENDATION 2

To ensure tax compliance with the signature requirements, the Director Electronic Tax Administration should take immediate steps to require electronic signatures be used for all electronic tax returns, thereby making the e-file process truly paperless.

ASSESSMENT OF CAUSE

Taxpayers who submit returns through the *e-file* program may file Form 8453 or sign their returns electronically.

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2

CORRECTIVE ACTION

The IRS has been working with tax professionals to eliminate the paper signature document for taxpayers who *e-file*. In 1999 and 2000, we piloted the Practitioner PIN Program that allowed taxpayers who filed through a selected tax professional the option to sign their return by entering a 5-digit personal identification number (PIN).

In 2001, we introduced Self-Select PIN. Unlike its predecessor, the Self-Select PIN was offered to taxpayers nationwide who filed electronically. However, because taxpayers had to enter tax data from their previous year return along with their PIN, the program was not open to first time filers.

For 2003, we decided to continue the Practitioner PIN Program that was re-instated this tax year and eliminated prior restrictions on participation. With this expansion and the growth in tax preparation software that allows individual filers to use a Self-Select PIN to sign their return, we believe the number of taxpayers signing their return electronically will increase.

Despite the electronic options offered, we may not be able to eliminate signature documents from income tax returns completely. Some forms that contain secondary signatures must be attached to the income tax returns. Taxpayers filing these forms cannot use one of the PIN options and must file Form 8453, U.S. Individual Income Tax Declaration for Electronic Filing, and attach the forms with the secondary signatures. In either case, we do not believe it is feasible to mandate electronic signatures for all e-file returns at this time.

IMPLEMENTATION DATE

Not Applicable

RESPONSIBLE OFFICIALS

Commissioner, Wage and Investment Division
Director, Electronic Tax Administration Division
Director, Strategic Services Division